HOUSING MARKET OUTLOOK

Gatineau

Canada Mortgage and Housing Corporation

www.cmhc.ca

FALL 2006

No sign of change in economic conditions

The first half of the year was quite exceptional for employment in the Outaouais area, with a gain of 10,600 jobs over the same period in 2005 (+53,700 jobs in Quebec). Across the province, only the Montérégie area posted a better performance (+27,700 jobs). As well, the unemployment rate fell to 6.2 per cent (8.6 per cent in Quebec). With this decrease, the Outaouais area showed the second lowest unemployment rate in Quebec, right behind the provincial capital area (5.4 per cent). It should be recalled that, in 2005, the Outaouais area ranked sixth. The service sector, which accounts for around 85 per cent of the labour force in the Outaouais area (75 per cent in Quebec), will continue to offer good job prospects from now until 2007, particularly for public, tourism and knowledge economy services. The proximity of Ottawa is not unrelated to this success. In fact, as the nation's capital, Ottawa still attracts tourists but, with the recovery in the high-technology sector, this area is again generating jobs in a certain category. After experiencing a more difficult period last year, the regional economy is now regaining strength.

The consumer confidence index, now on the rise, is also showing positive signs. The Conference Board index went up by 0.5 of a point in September, to 119.8. According to this organization, Canadians were more optimistic in September about their current and future financial situation.

Interest rates, for their part, are suggesting good news for consumers. In fact, on September 6, the Bank of Canada kept its key policy rate unchanged once again. This situation could last, and interest rates could even decrease by 2007. In fact, the Canadian economy is still operating at about its production potential, and the U.S. economy is coming in for a landing, which shows the need for the central banks to implement more expansionary policies. On the stock markets, the first half of 2006 was marked by a rather significant correction in the S&P/TSX index, after the year got off to a very promising start (e.g. decrease of 4.1 per cent in the second quarter, in relation to the first). Also, the recent volatility in metal and energy prices has made investors somewhat skittish. All these factors justify ending the increase in

IN THIS ISSUE

1 No sign of change in economic conditions

2 Listings rise slightly

2 Growth in existing home prices to slow down

2 New home market dependent on multiple housing

4 Vacancy rate to keep rising slowly

4 Mortgage rates have peaked

5 FORECAST SUMMARY

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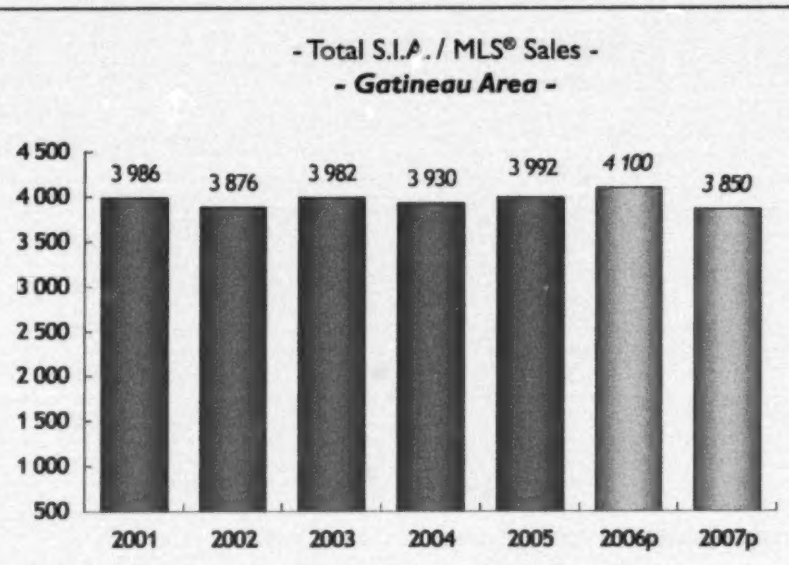
the key policy rate in the country, which should help ensure greater stability of the indices. It therefore seems more and more obvious that monetary easing will get under way in 2007 to offset the economic slowdown and the weak growth in the price indices in the country.

Listings rise slightly

After posting record growth in 2005 (+28 per cent), the number of existing homes for sale rose less rapidly during the first half of 2006. It should be specified, though, that maintaining the number of listings at the same level as in 2005 was a challenge in itself. Still, in recent months, real estate agents put up numerous "For Sale" signs, such that, at the end of September, the Gatineau area had 2,552 listings, or 5 per cent more than a year earlier. The last time there were this many sellers on the market dates back to the early 2000s, right before the real estate boom began.

Potential home buyers therefore have even more choice, which, combined with still favourable economic and financial conditions, will put upward pressure on sales one last time in 2006. The year should therefore end with a total of 4,100 transactions (+3 per cent). However, the market is not showing any real signs of a turnaround. In fact, the seller-to-buyer ratio has tightened (6 to 1 in the third quarter, versus 7 to 1 during the same period in 2005) despite the massive arrival of sellers on the market, and the growth in prices has remained stable at around 6 per cent. In 2007, continued favourable economic and financial conditions should maintain sales at a still very high level. On the other hand, the declining affordability of existing homes could cause the resale market to lose some of its momentum. Sales should then fall to about 3,850 units (-6 per cent).



Graph 1

Growth in existing home prices to slow down

Over the months to come, we should see the growth in home prices slow down and market conditions ease gradually toward a balanced state. This situation will result from a steady rise in the supply of homes for sale and a moderate slowdown in demand. This weaker growth in prices should effectively help attract more potential sellers, but will it be sufficient, as many buyers, seeing the mortgage payment gap narrow between new and existing homes, could opt for the new home market.

In 2006, the average price of MLS® transactions is expected to reach $168,000. The rise in prices should therefore be less than 10 per cent for a second straight year after the real estate boom. While it is certainly true that the Outaouais area, like several other areas in Quebec, had some catching up to do in terms of prices, we believe that this catching up is now complete and that any future increase in prices will rather result from changes in prevailing economic conditions. In the coming years, buyers will not be able to support such considerable hikes, even if mortgage rates decline.

From now until the end of 2006, the resale market should definitely shift from an overheated state to a situation where sellers will be gradually conceding some purchasing power to buyers. This will particularly hold true for single-family homes, as part of the demand could be met by the new home market, on account of the prices. This easing of the market will therefore be confirmed in 2007, and the growth in prices will be limited to 4 per cent, which will bring the average price to $175,000. However, as long as the market will be a seller's market, the rise in prices will stay above inflation (±2 per cent).

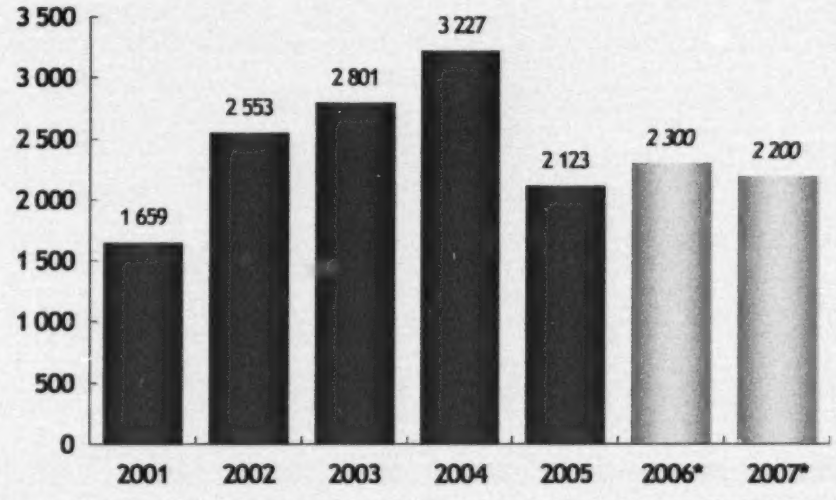
New home market dependent on multiple housing

Last year, the Outaouais area saw its population increase by 1.2 per cent

(+0.7 per cent in Quebec) to 341,752 inhabitants. The urban centre of the new city of Gatineau attracted new households, thanks, in part, to the supply of skilled jobs in the high technology sector. As well, the area was favoured in terms of household formation, as a large part of its population is in the 20 to 49 years' age group. This is good news for residential construction, as growth in housing activity depends, in part, on household formation. However, given the aging of the population in Gatineau, as elsewhere in Quebec, and the low vacancy rate in retirement homes, real estate developers have a good feeling that the demand for seniors' housing will stay strong. What's more, the steadily rising prices for both new and existing houses are somewhat limiting demand for dwellings of this type. All these reasons suggest that, next year, as was the case this year, the new home market will be mainly supported by the multiple housing segment. In fact, there is currently a shortage of specialized rental housing units in the area, and many such dwellings will be started this fall (over 300 units) and in 2007 (at least 300 units).

As well, without the construction of a significant number of multiple housing units (condominiums, semi-detached and row houses, and rental dwellings) this year, starts would certainly not have increased. In fact, had foundations had been laid for the same number lof multiple housing units so far this year as during the corresponding period in 2005, total starts from January to September would have been 1,382 units, compared to 1,434 units a year earlier (-4 per cent). With the average price of new single-detached homes having surpassed the psychological threshold of $200,000, while condominium and semi-detached home prices are still under $150,000 on average, the decision is obvious for many buyers.

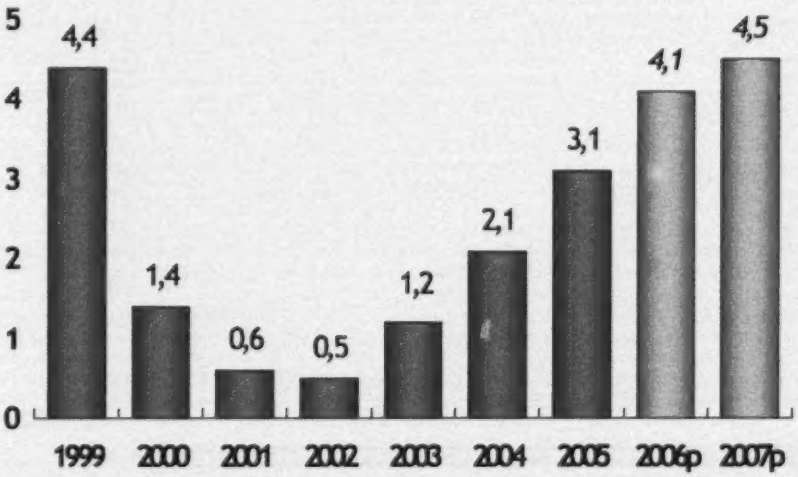
- Total Housing Starts -
- *Gatineau Area* -



Graph 2

As for freehold home starts, 2006 should stand out with a decline in demand. Starts of this type should decrease by 5 per cent to 1,130 units in 2006 and then to 1,050 units in 2007. On the other hand, multiple housing construction (more affordable housing types and rental dwellings) will continue to rise, with 1,170 new units this year, for an

- Vacancy Rate (%) for Private Rental Housing -
- *Gatineau Area* -



Graph 3

increase of 26 per cent, followed by 1,150 new units next year, for a decrease of 2 per cent.

Vacancy rate to keep rising slowly

The Outaouais area and its neighbour, the Ottawa area, share an economic space comprising over one million inhabitants. In fact, the cities of Ottawa and Gatineau make up the fourth largest urban agglomeration in Canada, after Toronto, Montréal and Vancouver. The unemployment rate is lower here than the average for Quebec (6.9 per cent, versus 8.3 per cent), and anticipated labour requirements are considerable (Emploi-Québec estimates that 28,000 jobs will be created from now until 2009 and that the prospects are excellent for immigrants who will choose to settle in the Outaouais area). In this context, a wave of immigration would no doubt have non-negligible consequences on the rental housing market, such as filling, at least in part, the void left by first-time home buyers.

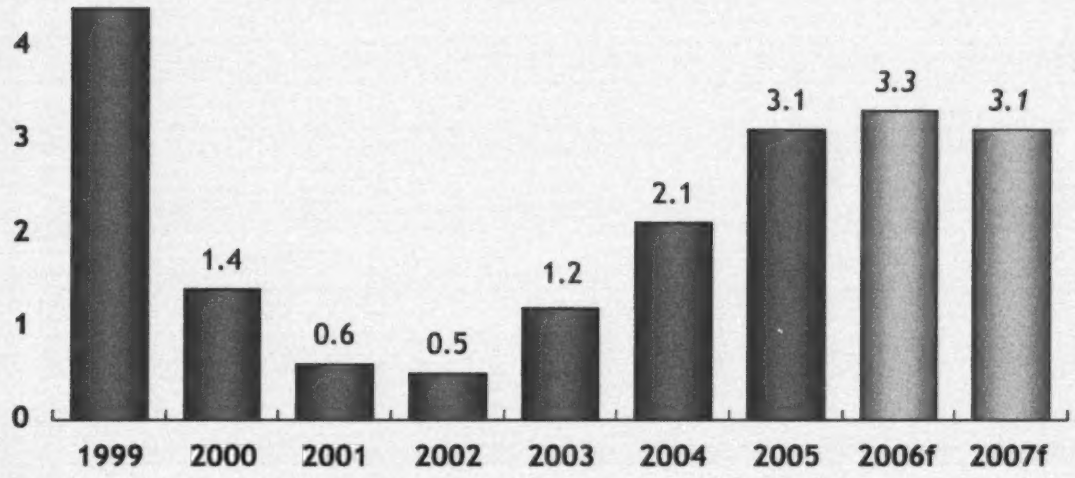
However, this is the only factor that will stimulate demand, as the determining variables on the rental market (homeownership, youth employment) will all be putting upward pressure on the vacancy rate over the next two years. The supply of new units will remain relatively significant in 2006, with close to 300 conventional units (apartments intended for regular clients as opposed to seniors) and as many retirement housing units. The supply will also increase in 2007, thanks, once again, to seniors' housing. In fact, relatively stable rents and continued strong homeownership in 2007 should not keep encouraging the construction of new rental housing units for the general population. These factors will therefore put upward pressure on the vacancy rate, which will again rise slightly, but should not exceed the 4.5-per-cent mark from now until 2007.

Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

- Vacancy Rate (%) for Private Rental Housing -
- Gatineau Area -



Graph 3

Forecast Summary
Gatineau Metropolitan Area
Fall-Winter 2006

	2003	2004	2005f	2006f	2004/2005	2005/2006
RESALE MARKET [1]						
MLS® sales						
Total	3,982	3,930	4,000	3,800	2 %	-5 %
Freehold	3,177	3,202	3,200	3,100	0 %	-3 %
Condominium	465	435	500	450	15 %	-10 %
Plex (2 to 5 units)	340	293	300	250	2 %	-17 %
Active MLS® listings						
Total	1,332	1,628	2,000	2,350	23 %	18 %
Freehold	1,064	1,277	1,550	1,800	21 %	16 %
Condominium	135	218	300	400	38 %	33 %
Plex (2 to 5 units)	133	133	150	150	13 %	0 %
Average MLS® price ($)						
Total	138,050	155,099	166,000	172,500	7 %	4 %
Freehold	143,281	160,371	171,000	178,000	7 %	4 %
Condominium	104,009	111,802	117,000	119,000	5 %	2 %
Plex (2 to 5 units)	135,843	162,035	178,000	187,000	10 %	5 %
NEW HOME MARKET						
Starts						
Total	2,801	3,227	2,300	2,000	-29 %	-13 %
Freehold	1,885	2,015	1,700	1,500	-16 %	-12 %
Condominium	209	806	400	250	-50 %	-38 %
Rental	707	406	200	250	-51 %	25 %
Average price ($)						
Detached houses	177,491	196,088	209,000	218,000	7 %	4 %
Semi-detached houses	118,252	128,743	135,000	140,000	5 %	4 %
RENTAL MARKET (%)						
Vacancy rate (October)	1.2	2.1	3.0	3.0	--	--
Change in rents (2-bedroom)	6.7	3.8	2.0	2.5	--	--
ECONOMIC OVERVIEW						
Mortgage rate - 1-year (%)	4.6	5.1	6.3	(5.5 - 6.5)	--	--
Mortgage rate - 5-year (%)	6.2	6.0	6.7	(6.0 - 7.0)	--	--
Job creation or loss	8,675	3,000	3,000	1,500	--	--
Unemployment rate (%)	6.5	6.5	6.6	6.7	--	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Outaouais Real estate Board. Data could differe from those published previously.

f : CMHC forecasts

Sources: CMHC, OREB and Statistics Canada

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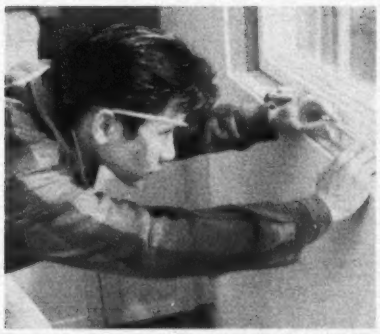
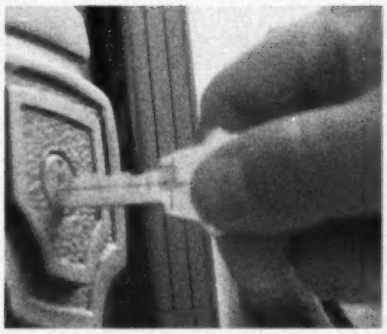

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